

**The Effect of the 2001 Recession and
Recent Tax Changes on the
Corporate Alternative Minimum Tax**

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**Curtis P. Carlson
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**Office of Tax Analysis
Department of the Treasury
Washington, DC 20220**

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1. Introduction

The corporate alternative minimum tax (AMT) makes corporations perform the expensive and burdensome task of complying with two separate tax systems without raising significant revenue. In addition to the compliance and financial burdens placed on companies by the AMT, the presence of two separate tax systems can lead to substantial economic inefficiencies. Differences in the tax treatment of an activity resulting from the presence of both the regular tax system and the alternative minimum tax produce investment decisions that are determined by tax differences, rather than economic differences. Some analysts (Lyon 1997 and Thorning 2001) have also indicated that the AMT may be pro-cyclical, causing firms to pay higher taxes than they otherwise would have in periods of low economic activity and lower taxes in periods of high economic activity.

Preferences and adjustments under the corporate AMT will form a larger share of a firm's income during times of lower profitability, if the firm attempts to maintain the same level of investments and other activities. In this case, a firm's AMT liability will increase during economic downturns because the AMT serves to recapture the preferences as their use (relative to income) increases. An example of this pro-cyclical relationship was the dramatic rise in AMT during the 1990-91 recession when AMT payments reached an all time high of \$20.7 billion dollars or 8.4 percent of total taxes paid that year (Lyon, 1997).

Recent changes to the corporate AMT appear to have reduced its cyclicity. This can be seen during the 2001 recession or the following year in 2002.¹ AMT payments reached an all time low of \$1.8 billion dollars in 2001 -- a 50 percent reduction from the previous year and only 1.1 percent of total taxes paid that year (Table 1). AMT payments rebounded somewhat in 2002

¹ The National Bureau of Economic Research, Business Cycle Dating Committee concluded that the 2001 recession started in March 2001 and ended eight months later in November 2001 (NBER 2003).

to \$2.5 billion dollars, but were still only 1.7 percent of total taxes paid. Net AMT payments (payments minus AMT credits) also reached their lowest level ever in 2001 while remaining negative for the seventh consecutive year. In 2002, net AMT payments were slightly positive, \$0.5 billion.²

Aggregate historical data illustrate general trends, but may mask the annual effect of corporate AMT on individual firms. This paper uses a panel of corporate tax returns to examine the effect of changes in the economy and AMT rules on the probability that a firm was affected by the AMT between 1995 and 2002 while controlling for individual firm characteristics. Results from this analysis indicate that the AMT is pro-cyclical and that the effects of recent changes to the AMT rules have significantly reduced the effect of the AMT. In addition, the results show that the effects of the AMT vary considerably by industry, firm size and individual firm characteristics. Large firms with assets over \$1 billion are over twice as likely to be affected by the AMT, than firms with assets between \$50 and \$100 million dollars. Firms in the agriculture and forestry, manufacturing, and transportation and public utilities industries have the highest odds of being affected by the AMT.

AMT payments in one year generate AMT credits that can be used to offset regular tax in subsequent years. Individual firm level data also show that many firms fail to use all of their AMT credits for significant periods of time. Approximately half the firms that had AMT credits at the end of 1995 were able to use them fully by 2002. In addition, corporations that were affected by the AMT generally had a greater probability of being affected by the AMT in a subsequent year.

² For further analysis of historical aggregate AMT data and a brief history of legislative changes to the AMT see Carlson (2005).

The next section of this paper provides a brief history of the AMT. Section three presents a model that separates out the effects of firm characteristics and economy wide factors on the probability of a firm being affected by the AMT. Section four examines the effects of the AMT on individual firms over time and section five concludes the paper.

2. Brief History of the AMT

Since the passage of the Tax Reform Act of 1986 the overall structure of the AMT has remained basically the same, although several important modifications to the AMT rules have been made. The Omnibus Reconciliation Act of 1993 repealed one of the AMT's two depreciation adjustments, the ACE depreciation adjustment, for property placed in service after 1993. The Taxpayer Relief Act of 1997 modified the remaining depreciation adjustments and repealed the AMT for small corporations. For property placed in service after December 31, 1998, the AMT recovery period for computing the depreciation adjustment was made the same as for regular tax purposes, although, the AMT recovery method was not conformed. Property eligible for the 200-percent declining balance method under the regular tax must continue to be recovered using the slower 150-percent declining balance method under the AMT.³ Property placed in service on or before December 31, 1998 is generally recovered over longer periods under the AMT than for regular tax purposes in addition to being subject to the slower recovery method. For taxable years beginning after December 31, 1997, a corporation with average gross receipts of less than \$7.5 million for the prior three taxable years is exempt from the AMT. The \$7.5 million threshold is reduced to \$5 million for the corporation's first three-taxable year period.

³ Property recovered under the 150 percent declining balance method or the straight-line method for regular tax purposes is recovered using the same method under the AMT.

The Job Creation and Worker Assistance Act of 2002 (JCWAA) included 30 percent bonus depreciation, which allows a business to immediately write-off 30 percent of the original "adjusted (depreciable) basis" of most new investment in equipment, usually the fully installed cost of qualified property.⁴ Property must be acquired after September 10, 2001, and before September 11, 2004. The bonus depreciation is allowed for both the regular tax and the AMT. In addition, businesses are entitled to "normal" first-year MACRS depreciation. If bonus depreciation is claimed, no AMT adjustment is required on the regular MACRS deductions.

In May 2003, the Jobs and Growth Tax Relief Reconciliation Act (JGTRRA) increased bonus depreciation to 50 percent. Under the JGTRRA, 50 percent "bonus" depreciation may be claimed for property acquired after May 5, 2003, and before January 1, 2005, and placed in service generally before January 1, 2005.⁵ As with the JCWAA, bonus depreciation is allowed for both the regular tax and the AMT.

3. Analysis of AMT Status Using Firm Level Data

Model and Data

Several changes to the AMT rules may have affected firms over the last decade. Beginning in 1999, the AMT recovery period for computing the depreciation adjustment was conformed to the regular tax recovery period. Starting in 2001, the Job Creation and Workers Assistance Act of 2002 (JCWAA) allowed firms to temporarily take additional bonus depreciation on qualified property, and if bonus depreciation was claimed, no AMT adjustment was required on the regular MACRS deductions. One would expect the odds of an individual

⁴ Property eligible for this treatment includes business equipment, computer hardware and most software, but not real estate or buildings.

⁵ Property does not qualify for the 50 percent "bonus" depreciation if a binding written sales contract was in effect before May 6, 2003 (although the 30 percent "bonus" would be applicable). Property eligible for the 50 percent "bonus" depreciation is the same as for the 30 percent "bonus" under the JCWAA.

firm being subject to the AMT to fall in 1999 and again in 2001 due to these changes in the tax law, everything else being equal.

On the other hand, the economy slowed considerably in 2001 and 2002. For any level of adjustment and preferences, a firm is more likely to pay AMT when its sales decline. Lyon (1997) suggests that there may be limited evidence that a decline in the growth rate of GDP is associated with an increase in the share of assets held by AMT firms. If this were the case in 2001 and 2002, then everything else being equal, one would expect that the odds of an individual firm being subject to the AMT to increase during 2001 and 2002.

To examine the effect of the changes in AMT rules and economic growth on the likelihood of a firm being affected by the AMT, the following relationship was estimated:

$$d_{i,t} = \alpha y_t + \beta X_{i,t} + \nu_i + \varepsilon_{i,t}, \quad (1)$$

where $d_{i,t}$ is a dummy variable that equals one if firm i is affected by the AMT in period t and zero if it is not. Economy wide annual effects at time t are given by y_t . Observable firm characteristics, X_i , at time t are included to control for firm characteristics. The error term $\varepsilon_{i,t}$ is assumed to be distributed (identically and independently) normal with mean zero and variance one. The firm-specific error component ν_i is treated as a random disturbance that varies across individual firms but not over time, to account for the potentiality that unobservable firm characteristics may bias parameter estimates. Equation (1) is estimated as a random-effects probit model. Formally,

$$\Pr(d_{i,t}=1 | X_{i,t}) = \Phi(\alpha y_t + \beta X_{i,t} + \nu_i), \quad (2)$$

where ν_i is assumed $iid N(\mathbf{0}, \sigma_v^2)$ and $\Phi(\cdot)$ is the standard normal cumulative distribution function.

In addition to the random-effects probit model, I also estimate a series of cross-sectional probability models for each year in the time period (1995-2002). In cross-sectional estimation, the random effect is indistinguishable from the constant and thus, the model becomes a simple binary probit model.

This analysis uses data from income tax returns from the Internal Revenue Service, Statistics of Income (SOI) Corporate Tax Return files for 1995 through 2002. The SOI files are constructed annually based on a sample of all corporate tax returns filed. The SOI files are stratified to sample larger firms at a greater rate than smaller firms. Most corporations with assets in excess of \$50 million are included in the sample. From these samples, I construct a panel that includes all firms with at least three years of data in the SOI extracts during the 1995 through 2002 period. In addition, firms with assets less than \$50 million were eliminated from the panel because many of these firms were no longer subject to the AMT beginning in 1998. The panel consists of 121,095 observations from 24,339 individual firms. These firms accounted for 76 percent of AMT payments and 71 percent of all corporate income taxes paid in 2002.

Table 2 provides definitions of the variables used in the estimation. The GDP growth rate variable is used to determine if the AMT is pro-cyclical, as some have suggested. The AMT variables indicate time periods when depreciation rules under the AMT are different. One would expect the effect of the AMT to diminish in later time periods as the treatment of depreciable assets under the AMT were brought more in line with the treatment of these assets under the regular tax. Firm characteristics used in both the random-effects probit models and the binary probit models include the firm's asset class and industry classification.

Table 3 presents descriptive statistics for the regression sample. In the entire data set, 17 percent of all annual firm observations indicate that a firm is affected by the AMT. The number

of observations is relatively equal in each year, although, the percent of observations in 2002 falls to a low of 9.2 percent. Firms in the asset size class of \$50 million to \$100 million contain the most observations (33.6 percent) but only 29.8 percent of annual firm observations were in this asset class. Firms in the finance, insurance, real estate and management of companies industries make up the largest percentage of observations (46.9 percent). Firms in these industries, however, were a smaller percent of those firms observed to be affected by the AMT (32.3 percent). The manufacturing industries contain the next largest percent of observations (25.4 percent) while the agriculture, forestry, fishing and hunting industries contain the fewest observations (0.6 percent). The average GDP growth rate from 1995 to 2002 was 3.3 percent.

Results and Discussion

Table 4 presents results from the random effects probit regression. Marginal effects are reported in Column (2) for easier interpretation of the estimated coefficients. In addition to the log likelihood, a Wald Chi-squared statistic that tests the fit of the specification against a model with only a constant is presented. An estimate of the proportion of the total variance contributed by the random-effect variance component calculated as $\rho = \frac{\sigma_v^2}{\sigma_v^2 + 1}$ is also included. A likelihood-ratio test of $\rho = 0$ is also included for each specification. When ρ is zero, the panel level variance component is unimportant and the random effects probit model is no different from a binary probit model estimated with pooled data. The proportion of the total variance contributed by the firm-level variance in the estimated equation is above 50 percent, indicating that individual firm level attributes not accounted for by firm size or industry classification play an important role in determining the AMT status of the firm.

The estimated coefficient on GDP growth is negative and significant, indicating that the AMT is pro-cyclical. The odds of being affected by the AMT increase when the economy slows down. For a one-percentage point decrease in GDP the odds of being affected by the AMT increases by 7 percent or 0.5 percentage points. The estimated coefficients on the time period dummies are negative and significant indicating that changes to the AMT rules have greatly reduced the impact of the AMT. When the recovery period was made the same for AMT and regular tax purposes for assets placed in service beginning in 1999 the odds of being affected by the AMT decreased by 2.6 percentage points or almost 30 percent. The odds of being affected by the AMT during the period of “bonus” depreciation fell by 8.2 percentage points or approximately 80 percent. It is possible that the AMT tax regime variables are picking up changes in firm’s investment behavior that is not reflected by changes in the tax laws, especially during the period 2001 through 2002. For example, if investment fell by more than one would expect during the 2001 and 2002 period due to increased economic and political uncertainty then the effect of the AMT tax regime variable for this period would be biased downward.

The results from the regression show a wide disparity of the effect of the AMT across firm sizes and industries. Very large firms with assets over \$1 billion are over twice as likely to be affected by the AMT than firms with assets between \$50 and \$100 million dollars (an increase of nearly 7 percentage points) and firms in the mining industry are six times more likely to be affected by the AMT as a firm in the finance, insurance and real estate industries. Firms in agriculture and forestry, manufacturing, and transportation and public utilities industries have three to four times the chance of being affected by the AMT as a firm in finance, insurance and real estate.

Table 5 shows the results of repeating the analysis using cross-sectional binary probit models for each year of the data. Marginal effects for each variable are presented for ease of presentation. In general, the results mirror those obtained by the random-effects procedure estimated with pooled data, namely that firm size and industry classification have a significant effect on the probability of being affected by the AMT. The marginal effect of being a large firm (assets over \$1 billion) on the probability of being affected by the AMT remains high throughout the 1995-2002 period. As the probability of being affected by the AMT has decreased over time the marginal effect of not being in the finance, insurance and real estate industries has decreased.

4. AMT Status and Credit Use Over Time

In order to examine the use of AMT credits over time and AMT status of individual firms annually, the unbalanced panel created for the random-effects probit model was restricted to firms that had data in every year from 1995 through 2002. The 5,801 firms in this balanced panel account for 63 percent of AMT payments in 2002 and 49 percent of total corporate income taxes in 2002.

Between 1995 and 2002, almost 50 percent of the firms in this panel paid higher taxes due to the AMT in at least one year, either through direct AMT payments or through limits in the use of tax credits due to the AMT rules (Table 6). The duration for firms affected by the AMT was relatively short in many cases. Over 50 percent of the firms in the panel that were affected by the AMT (accounting for over 38 percent of the assets) were affected for only 1 or 2 years. On the other hand, over 20 percent of the firms in the panel that were affected by the AMT (accounting for 31 percent of total assets) were affected for 5 years or more.

Because AMT payments generated in one year create credits that can be used to reduce regular tax liability in a subsequent year, the AMT has been viewed as a prepayment of tax rather

than an additional tax.⁶ Many corporations, however, fail to receive credit for their AMT payments for at least several years after receipt. About 51 percent of the firms in the panel with minimum tax credits available at the end of 1995 were able to use all of these credits by 2002 (Table 7).⁷ A slightly larger percentage of all minimum tax credits available at the end of 1995 (56.11 percent) were used by 2002. The use of minimum tax credits would have been greater in this period if the tentative minimum tax did not limit the use of these credits.

A firm that either pays positive AMT in one year or has tax credits that are limited by the tentative minimum tax has a significant probability of being affected by the AMT in the following year. Table 8 shows the tax status across years for firms in the panel for the 1995-2000 period. Of the firms affected by the AMT in one year over 60 percent remained affected in the following year. Over 90 percent of firms that are on regular tax status in one year remained that way in the following year. These transition probabilities remained relatively constant in the 1995-2000 period. In the 2000-2001 period, however, the transition probabilities changed significantly. Conditional on AMT status in 2000, the chance of being affected by AMT in 2001 fell to 35.58 percent (Table 9). With a smaller number of firms affected by the AMT in 2001, the conditional probability of being affected by the AMT in 2002 increased back to levels seen in previous periods (Table 10).

5. Conclusion

Even though changes to the AMT rules have lessened the effect of the AMT in recent years, the analysis indicates the AMT is still pro-cyclical, increasing a firm's taxes over what

⁶ GAO (1995) page 3.

⁷ This assumes that minimum tax credits earned by the end of 1995 would be used before the credits earned after the 1987-1995 period. Firms that exhausted all of their credits may have incurred AMT after 1995. This would have left them with additional credits at the end of 2002.

they would have been otherwise during periods of slower economic growth. This feature of the AMT has the opposite effect of what a more carefully designed tax code would create.

The AMT continues to create economic inefficiencies by the disparate effect it has on firms from different industries and firms of different sizes, although the effect of the AMT has lessened due to legislative changes in recent years. Individual firm characteristics also play a significant role in determining if a firm is subject to the AMT even with seemingly similar firms. A more efficient tax system would treat all firms equally, so that investment and other business decisions would be based on their underlying economic characteristics rather than based on their tax consequences.

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Table 1. Number of Corporate Returns and Taxes Paid by Corporations with Alternative Minimum Tax: 1987-2002^a

<i>Year</i>	<i>Number of returns with AMT (thousands)</i>	<i>AMT returns as a percent of total returns (percent)</i>	<i>Alternative minimum tax (\$ billions)</i>	<i>Taxes paid by AMT taxpayers (\$ billions)</i>	<i>Taxes paid by AMT taxpayers as a percent of total taxes paid (percent)</i>	<i>AMT paid as a percent of total taxes paid (percent)</i>
1987	17.4	0.7	2.2	5.8	6.7	2.6
1988	25.2	1.1	3.4	6.3	6.6	3.5
1989	25.2	1.1	3.5	7.9	8.2	3.7
1990	32.5	1.5	8.1	20.7	21.5	8.4
1991	30.5	1.5	5.3	13.0	14.2	5.8
1992	28.0	1.3	4.9	12.5	12.3	4.8
1993	29.3	1.4	4.9	10.2	8.5	4.1
1994	29.5	1.3	4.5	8.2	6.0	3.3
1995	25.8	1.1	4.3	8.1	5.2	2.7
1996	27.7	1.2	3.8	6.8	4.0	2.3
1997	25.0	1.1	3.9	7.2	3.9	2.1
1998	18.4	0.8	3.3	6.0	3.3	1.8
1999	14.9	0.7	3.0	6.3	3.3	1.6
2000	13.1	0.6	3.9	5.8	2.9	1.9
2001	7.1	0.3	1.8	3.9	2.3	1.1
2002	7.1	0.3	2.5	3.0	2.6	1.7

Source: Statistics of Income, Corporate Tax Return Files, 1987-2002. Data exclude S-corporations, regulated investment companies, and real estate investment trusts

a. Alternative minimum tax does not include increases in tax liability from firms unable to claim regular business tax credits against the regular tax because of the AMT.

Table 2. Variable Definitions

<i>Variables</i>	<i>Definition</i>
GDP	Annual GDP growth rate (percent)
AMT	=1 if firm affected by the AMT in year t (either positive AMT payments or tentative minimum tax limited)
tax1	= 1 if year = 1995-1998
tax2	= 1 if year = 1999-2000
tax3	= 1 if year = 2001-2002
size1	=1 if asset size between \$50-\$100 million
size2	=1 if asset size between \$100-\$250 million
size3	=1 if asset size between \$250-\$500 million
size4	=1 if asset size between \$500-\$1,000 million
size5	=1 if asset size Over \$1 billion
industry-1	=1 if firm in Finance, Insurance, Real Estate & Management of Companies
industry-2	=1 if firm in Agriculture, Forestry, Fishing and Hunting
industry-3	=1 if firm in Mining
industry-4	=1 if firm in Construction
industry-5	=1 if firm in Manufacturing
industry-6	=1 if firm in Transportaton and Public Utilities
industry-7	=1 if firm in Wholesale and Retail Trade
industry-8	=1 if firm in Services and Other

Note: When not otherwise indicated, all variables represent information at year t . Dummy Variables tax1, size1 and industry-1 not included in the estimated equation.

Table 3. Summary Statistics

<i>Variables</i>	<i>All</i>	<i>Affected by AMT</i>	<i>Not Affected by AMT</i>
AMT	0.171 (0.376)	1	0
1995	0.109 (0.312)	0.146 (0.353)	0.105 (0.306)
1996	0.122 (0.327)	0.152 (0.359)	0.116 (0.320)
1997	0.134 (0.341)	0.155 (0.362)	0.127 (0.333)
1998	0.136 (0.343)	0.150 (0.357)	0.132 (0.338)
1999	0.138 (0.345)	0.146 (0.353)	0.134 (0.341)
2000	0.140 (0.347)	0.129 (0.335)	0.141 (0.348)
2001	0.129 (0.335)	0.069 (0.253)	0.143 (0.350)
2002	0.092 (0.289)	0.052 (0.222)	0.103 (0.303)
firm asset size \$50-\$100 million	0.336 (0.472)	0.298 (0.457)	0.344 (0.475)
firm asset size \$100-\$250 million	0.309 (0.462)	0.288 (0.453)	0.313 (0.464)
firm asset size \$250-\$500 million	0.137 (0.343)	0.132 (0.339)	0.138 (0.344)
firm asset size \$500-\$1,000 million	0.085 (0.278)	0.091 (0.287)	0.083 (0.276)
firm asset size over \$1 billion	0.134 (0.341)	0.191 (0.393)	0.122 (0.328)
Finance, Insurance, Real Estate & Management of Companies	0.469 (0.499)	0.323 (0.470)	0.498 (0.500)
Agriculture, Forestry, Fishing and Hunting	0.006 (0.076)	0.008 (0.091)	0.005 (0.073)
Mining	0.018 (0.134)	0.041 (0.199)	0.014 (0.116)
Construction	0.018 (0.132)	0.017 (0.129)	0.018 (0.133)
Manufacturing	0.254 (0.435)	0.329 (0.470)	0.239 (0.426)
Transportation and Public Utilities	0.039 (0.194)	0.065 (0.247)	0.034 (0.181)
Wholesale and Retail Trade	0.111 (0.315)	0.115 (0.318)	0.111 (0.314)
Services and Other	0.084 (0.278)	0.097 (0.296)	0.082 (0.274)
GDP	0.03302 (.01267)	0.0355 (0.01079)	0.0325 (0.01300)

Source: Statistics of Income, Corporate Tax Return Files, 1995-2002.

Data exclude S-corporations, regulated investment companies, and real estate investment trusts.

Percents may not equal 100 due to rounding.

Note: Entries are means, with standard deviations in parentheses.

Table 4. Random Effects Probit Estimation of the Probability that a Firm is Affected by the AMT -- Marginal Effects of Independent Variables

	Coefficient (1)	Model Marginal Effect (2)
<i>Evaluated at mean of all independent variables</i>		0.0638
GDP	-0.0377 ^a (0.0086)	-0.0047
<i>AMT Tax Regime</i>		
1995-1998 (reference)		0.0988
1999-2000	-0.1731 ^a (0.0134)	-0.0269
2001-2002	-0.8365 ^a (0.0273)	-0.0820
<i>Firm Asset Size</i>		
\$50-\$100 million (reference)		0.0505
\$100-\$250 million	0.0645 ^a (0.0184)	0.0071
\$250-\$500 million	0.1401 ^a (0.0246)	0.0163
\$500-\$1,000 million	0.2053 ^a (0.0291)	0.0252
Over \$1 billion	0.4450 ^a (0.0281)	0.0656

Table continued on next page.

<i>Industry</i>		
Finance, Insurance, Real Estate & Management of Companies (reference)		0.0335
Agriculture, Forestry, Fishing and Hunting	0.8364 ^a (0.1097)	0.1263
Mining	1.1442 ^a (0.0617)	0.2123
Construction	0.3375 ^a (0.0637)	0.0341
Manufacturing	0.6127 ^a (0.0233)	0.0779
Transportation and Public Utilities	0.7540 ^a (0.0435)	0.1071
Wholesale and Retail Trade	0.4342 ^a (0.0302)	0.0476
Services and Other	0.5066 ^a (0.0310)	0.0591
Constant	-1.5884 ^a (0.0382)	
ρ	0.5504 (0.0057)	
LR Test (Ho: $\rho=0$)	14,000	
Log Likelihood	-45,754	
Wald Chi2	3,135.37	
Obs.	121,095	
N	24,339	

Note: Changes in the predicted probabilities are evaluated at means of all other independent variables.

Source: Statistics of Income, Corporate Tax Return Files, 1995-2002. Data exclude S-corporations, regulated investment companies, and real estate investment trusts.

^a Significant at the 1 percent level.

Table 5. Probit Estimation of the Probability that a Firm is Affected by the AMT -- Marginal Effects of Independent Variables

	1995	1996	1997	1998	1999	2000	2001	2002
<i>Firm Asset Size</i>								
<i>\$50-\$100 million (reference)</i>	20.06	18.74	17.70	16.35	15.27	12.61	7.01	6.78
\$100-\$250 million	0.36	0.62	-0.01	1.07	1.56 ^b	2.16 ^a	1.64 ^a	2.04 ^a
\$250-\$500 million	0.13 ^c	1.92 ^c	1.99 ^b	2.18 ^b	1.73 ^c	2.74 ^a	1.79 ^a	2.33 ^a
\$500-\$1,000 million	2.32 ^a	1.70	3.83 ^a	4.22 ^a	4.27 ^a	4.65 ^a	0.93	1.45 ^c
Over \$1 billion	10.41 ^a	9.51 ^a	7.99 ^a	8.24 ^a	10.42 ^a	9.83 ^a	6.90 ^a	8.27 ^a
<i>Industry</i>								
<i>Finance, Insurance, Real Estate & Management of Companies (reference)</i>								
<i>Agriculture, Forestry, Fishing and Hunting</i>	14.97	14.14	12.96	12.89	12.53	11.32	7.44	8.05
Agriculture, Forestry, Fishing and Hunting	15.56 ^a	20.45 ^a	15.16 ^a	15.46 ^a	15.00 ^a	10.54 ^a	13.64 ^a	4.76
Mining	36.70 ^a	42.11 ^a	33.58 ^a	19.11 ^a	20.41 ^a	29.58 ^a	14.45 ^a	7.12 ^a
Construction	6.62 ^b	5.95 ^b	9.34 ^a	5.93 ^a	6.14 ^a	7.35 ^a	2.94 ^c	-4.17 ^b
Manufacturing	15.46 ^a	13.83 ^a	13.69 ^a	12.10 ^a	11.00 ^a	7.48 ^a	2.14 ^a	3.16 ^a
Transportation and Public Utilities	18.51 ^a	17.83 ^a	15.88 ^a	17.13 ^a	13.40 ^a	10.76 ^a	7.01 ^a	4.67 ^a
Wholesale and Retail Trade	9.26 ^a	8.13 ^a	7.68 ^a	7.15 ^a	6.63 ^a	4.53 ^a	1.04	-0.08
Services and Other	10.89 ^a	11.60 ^a	13.44 ^a	11.03 ^a	9.58 ^a	7.30 ^a	0.89 ^a	1.19
<i>Evaluated at mean of all independent variables</i>								
Predicted Value	21.44	20.34	19.17	18.31	17.60	15.23	8.65	9.00

Note: Changes in the predicted probabilities are evaluated at means of all other independent variables.

Source: Statistics of Income, Corporate Tax Return Files, 1995-2002. Data exclude S- corporations, regulated investment companies, and real estate investment trusts.

Note: Changes in the predicted probabilities are evaluated at the means of all other variables.

^a Significant at the 1 percent level. ^b Significant at the 5 percent level. ^c Significant at the 10 percent level.

Table 6. Total Years of Alternative Minimum Tax Status, 1995-2002

Percent

	<i>Year(s)</i>								
	None	1	2	3	4	5	6	7	8
Firms	50.72	14.6	10.38	8.24	5.86	4.69	2.71	1.59	1.22
Assets	28.83	7.70	19.32	15.82	6.05	7.46	5.60	4.68	4.55

Source: Statistics of Income, Corporate Tax Return Files, 1995-2002. Data exclude S- corporations, regulated investment companies, and real estate investment trusts. Panel of firms with assets exceeding \$50 million in 1995 for which continuous tax information was available. The final sample consists of 5,801 firms. AMT tax status includes positive AMT payments and increases in tax liability from firms unable to claim regular business tax credits against the regular tax because of the AMT. These firms account for 63 percent of AMT payments in 2002 and 49 percent of total corporate income taxes in 2002.

Table 7. Use of 1995 Minimum Tax Credits

Percent

	<i>Year</i>						
	1996	1997	1998	1999	2000	2001	2002
Number of firms able to use minimum tax credits available at the end of 1995. ^a	15.46	26.35	33.96	40.72	45.55	48.71	50.90
1987-1995 minimum tax credits used ^a	14.91	28.09	35.62	41.27	48.87	53.59	56.11

Source: Statistics of Income, Corporate Tax Return Files, 1995-2002. Data exclude S- corporations, regulated investment companies, and real estate investment trusts. Panel of firms with assets exceeding \$50 million in 1995 for which continuous tax information was available and had AMT credits available for use in 1996. The final sample consists of 1552 firms. These firms account for 33 percent of AMT payments in 2001 and 13 percent of total corporate income taxes in 2002.

a: Includes both firms that made positive AMT payments in 1995 or had unused minimum tax credits available from 1987-1995.

Table 8. Transition Probabilities on and off the Regular Tax, 1995-2000

Percent

<i>Previous State</i>	<i>Probability of moving to state of</i>			
	<i>AMT</i>	<i>Loss</i>	<i>Regular Tax</i>	<i>Total</i>
AMT	60.21	18.53	21.26	100
Loss	26.67	64.14	9.19	100
Regular Tax	5.19	3.97	90.85	100
Addendum: Probability of initial tax status	23.01	14.01	62.97	

Source: Statistics of Income, Corporate Tax Return Files, 1995-2002. Data exclude S- corporations, regulated investment companies, and real estate investment trusts. Panel of firms with assets exceeding \$50 million in 1995 for which continuous tax information was available. The final sample consists of 5801 firms. AMT tax status includes positive AMT payments and increases in tax liability from firms unable to claim regular business tax credits against the regular tax because of the AMT. These firms account for 63 percent of AMT payments in 2002 and 49 percent of total corporate income taxes in 2002.

Table 9. Transition Probabilities on and off the Regular Tax, 2000-2001

Percent

<i>Previous State</i>	<i>Probability of moving to state of</i>			
	<i>AMT</i>	<i>Loss</i>	<i>Regular Tax</i>	<i>Total</i>
AMT	35.34	42.79	21.87	100
Loss	5.67	86.93	7.40	100
Regular Tax	4.74	7.98	87.27	100
Addendum: Probability of initial tax status	18.29	18.86	62.85	

Source: Statistics of Income, Corporate Tax Return Files, 1995-2002. Data exclude S- corporations, regulated investment companies, and real estate investment trusts. Panel of firms with assets exceeding \$50 million in 1995 for which continuous tax information was available. The final sample consists of 5801 firms. AMT tax status includes positive AMT payments and increases in tax liability from firms unable to claim regular business tax credits against the regular tax because of the AMT. These firms account for 63 percent of AMT payments in 2002 and 49 percent of total corporate income taxes in 2002.

Table 10. Transition Probabilities on and off the Regular Tax, 2001-2002

Percent

<i>Previous State</i>	<i>Probability of moving to state of</i>			
	<i>AMT</i>	<i>Loss</i>	<i>Regular Tax</i>	<i>Total</i>
AMT	53.77	23.44	22.79	100
Loss	8.14	82.96	8.90	100
Regular Tax	4.81	6.67	88.53	100
Addendum: Probability of initial tax status	10.52	29.24	60.25	

Source: Statistics of Income, Corporate Tax Return Files, 1995-2002. Data exclude S- corporations, regulated investment companies, and real estate investment trusts. Panel of firms with assets exceeding \$50 million in 1995 for which continuous tax information was available. The final sample consists of 5801 firms. AMT tax status includes positive AMT payments and increases in tax liability from firms unable to claim regular business tax credits against the regular tax because of the AMT. These firms account for 63 percent of AMT payments in 2002 and 49 percent of total corporate income taxes in 2002.